

HOMER COMMUNITY SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Homer Community Schools
Homer, Michigan

July 21, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of Homer Community School's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the aggregate discretely presented component unit has not been reported and has not been determined. In addition, the assets, liabilities, fund balances, revenues, and expenditures of the aggregate remaining fund information has not been determined.

July 21, 2006

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of the Homer Community Schools, as of June 30, 2006, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Community Schools, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2006, on our consideration of Homer Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xiv and 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of Homer Community Schools' basic financial statements. The additional information on pages 28 to 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Homer Community Schools (HCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Homer Community Schools was very fortunate to pass a bond proposal for the addition of classrooms, cafeteria and the mechanical system, with remodeling to the elementary. Construction was completed in the 2005-2006 school year. The bond was for \$5.6 million dollars. Also, Successfully passed was the Headlee override to restore the non-homestead millage to 18mills.

The District's general fund financial situation did not improve from the 2005 fiscal year to 2006. This is the second straight year in a 9 year period in which the general fund did not show improvement. For the 2005/2006 school year general fund, fund equity was decreased by \$214,678. The Board of Education initially approved a budget with a deficit of \$166,000. The increase in deficit was due to higher utilities cost than was projected, and contract settlements with employee groups that included the 2005 school year and the 2006 school year.

As expected, the athletic fund had greater expenses for 2006 than revenue; this amount was budgeted in the general fund to cover the shortfall in the athletic fund.

The cafeteria program had more expenses for 2006 and revenue came in less with a reduction to fund equity of \$9,827. Equipment, telephone, and alarm system were purchased by the cafeteria account for the new cafeteria facility.

For the 2005/06 school year, the capital projects fund paid for the newly installed alarm system and telephone system along with the general fund. Homer Community Schools was able to maintain a reasonable reserve for future needs of the District.

Total general fund expenditures and transfers exceeded \$8.7 million dollars with revenue approximately \$8.5 million dollars; total general fund expenditures exceeded revenue by \$214,678. The District continues to participate in short-term loans, borrowing \$1,000,000 against anticipated state aid payments. This amount was increased from the 2005 fiscal by \$100,000.

The District student membership in the Fall of 2005 increased by 15.73 FTE's from the February 2005 count. Unfortunately, the February of 2006 enrollment dropped by 15 students. There was not a reduction in staff or programs for the 2006 school year. In the 2006 school year, the District did not purchase a new bus. In July of 2006, a new school bus is scheduled for purchase.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like instruction and support services were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

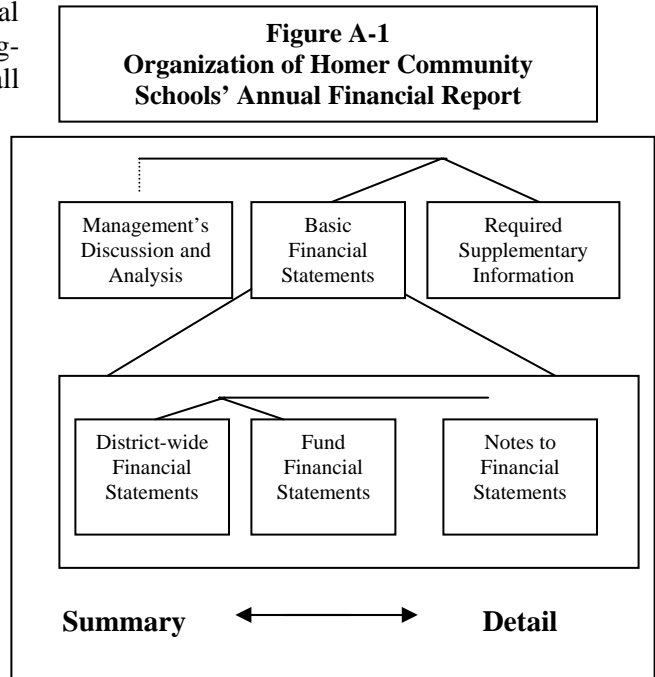


Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Homer's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's combined net assets were slightly less on June 30, 2006 than the year before, decreasing by \$109,325 to \$3,873,461. The other impact is the District's accumulated depreciation which was \$6,688,635 compared to District capital assets of \$15,230,822.

Table A-3 Homer Community Schools		
	2006	2005
Current assets	\$ 3,506,543	\$ 7,970,294
Capital assets and other	8,572,821	4,787,496
Total assets	12,079,364	12,757,790
Long-term debt outstanding	5,603,377	5,879,403
Other liabilities	2,602,526	2,895,601
Total liabilities	8,205,903	8,775,004
Net assets		
Invested in capital assets, net of related debt	3,348,541	3,235,020
Restricted for debt service	141,878	86,089
Unrestricted	383,042	661,677
Total net assets	\$ 3,873,461	\$ 3,982,786

Table A-4		
Changes in Homer Community Schools' Net Assets		
	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 347,823	\$ 317,870
Federal and state categorical grants	852,747	791,126
General revenues:		
Property taxes	1,074,213	958,549
Investment	114,765	116,900
State aid - unrestricted	6,656,856	6,578,796
ISD	562,377	498,526
Other	17,480	11,151
Total revenues	<u>9,626,261</u>	<u>9,272,918</u>
Expenses:		
Instruction	5,529,774	5,214,849
Support services	2,834,509	2,645,723
Outgoing transfers and other	32,997	47,007
Community services	155,341	149,835
Food services	399,711	359,153
Athletics	222,117	182,519
Interest on long-term debt	206,165	190,403
Unallocated depreciation	354,972	310,047
Total expenses	<u>9,735,586</u>	<u>9,099,536</u>
Change in net assets	<u>\$ (109,325)</u>	<u>\$ 173,382</u>

District Governmental Activities

The District's financial condition has come about through a number of areas.

- Proposal A which established the student foundation grant concept, and has increased that amount from \$4,352 per student in 1995 to \$6,875 per student in 2006.
- Student growth in the District has decreased. In fiscal year 1999 state aid membership was 1,129.72 and in five years has decreased by 7.23% to 1,048. Homer Community Schools does participate in School of Choice and Open Enrollment to attract new students to the District.
- Many of the District's employees have been part of a total compensation method of determining their wage and benefit package, which has allowed the District's total compensation to generally keep pace with decrease District revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the District as a whole its combined fund balance is \$1.288 million compared to \$5.486 million in 2005. The fund balance decreased by \$4.197 million for the year primarily due to the completion of the construction/renovation to the school. There is a debt service fund with a net fund balance of \$177,206 the general fund decreased its fund equity by \$214,678 and other governmental funds decreased by \$37,958 (cafeteria, activities and building & site).

Total fund balances decreased, both the general fund and athletic funds had expenditures greater than revenues. The General Fund's expenditures were about 2.52% greater than yearly revenues, while Athletic spending was nearly 57.57% greater than revenues. The expenditures for Athletics does included salaries and benefits for the coaching staff. The general fund contribution to the athletic fund brought this fund to its expected balance of matching revenues to expenditures. For fiscal 2006, cafeteria ended with a fund balance of \$106,883 covering the District for three months of expense obligations. The decrease in fund balance for the cafeteria is due to the purchases made in new equipment for the new cafeteria facility.

General Fund and Budget Highlights

During the 2006 fiscal year the original District budget was amended several times to reflect changes which affected the District.

The initial amendment took place in the fall, once the student count and staff changes had been determined. Winter amendments took place to account for the change in February student count, and decrease spending was done to reduce the projected deficit. All programs and staff were maintained, only necessary expenditures were made.

Spring amendments took place to more accurately reflect payouts, being made to District employees who were retiring, as well as the final totals of state funding to the school districts.

The final amended budget was to have expenses greater by (\$214,520) than revenue. Final results showed that revenues came in less (\$16,331) than were anticipated, but expenditures came in even less (\$16,173). The net result after other financing sources and (uses) was a change in fund balance of \$214,678, decreasing the fund balance to \$789,412.

General fund expenditures came within .19% budgeted. Inventory controls allowed the District to anticipate a reduction in expenditures for summer cleaning and preparation for fall school opening. Utilities and fuel expense came in very close to that anticipated for the month of June. Students prepaid to take Drivers Education, which allowed the district to know exactly how many students would be participating in this program. This allowed the district to know exactly teaching and benefit cost.

Overall the difference between the final District's amended budget and end of the year figures amounted to about a \$158 in deficit spending. The change from the Board adopted budget of June 2005 amounted to expenditures which were greater than revenue by \$48,520 to the final budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5				
Homer Community Schools' Capital Assets				
	2006			2005
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	
Land	\$ 15,000		\$ 15,000	\$ 15,000
Construction in progress				1,620,501
Buildings and improvements	10,830,921	3,009,942	7,820,979	2,380,422
Technology	640,238	524,800	115,438	65,998
Furniture and fixtures	1,808,155	1,499,555	308,600	373,794
Machinery and equipment	996,707	880,930	115,777	87,908
Transportation equipment	939,801	773,408	166,393	210,882
Total	<u>\$ 15,230,822</u>	<u>\$ 6,688,635</u>	<u>\$ 8,542,187</u>	<u>\$ 4,754,505</u>

Capital asset purchases throughout fiscal 2006 included Building & Improvements, Technology and Machinery and Equipment with the new 2004 Bond.. The total net increase was \$3,787,682.

LONG-TERM DEBT

At year end the District had \$5,954,106 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

The District issued \$5,600,000 of bonds in September 04 for a capital project, which has since been reduced as an outstanding debt. Principal and interest payments have been to decrease the long-term debt.

An increase in compensated absences of \$25,844 was also recorded. The increase was greater than in 2005 because of no retirements and the increase in wages for a 2 year period for fiscal 2006.

Table A-6		
Homer Community Schools		
Outstanding Long-Term Debt		
	2006	2005
General obligation bonds and debt	\$ 5,261,295	\$ 5,553,104
Durant - limited obligation bonds	49,952	77,862
Compensated absences	642,859	617,015
	<u>\$ 5,954,106</u>	<u>\$ 6,247,981</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of four existing circumstances that could significantly affect its financial health in the future:

- The 2006-2007 foundation allowance has been projected to increase to \$7,085, the foundation allowance represents 83% of total District revenue.
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion aid to the District.
- Students count is projected to decline slowly over the next five years.
- Health care costs and retirement contributions continue to increase.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Homer Community Schools, 403 S. Hillside St, Homer, Michigan 49245.

**HOMER COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 424,226
Cash and cash equivalents - restricted for capital projects	39,886
Investments - other	231,420
Investments - restricted for capital projects	472,701
Investment - restricted for note payable payment	881,675
Receivables:	
Other governmental units	1,452,157
Taxes	1,419
Inventories	3,059
TOTAL CURRENT ASSETS	3,506,543
NONCURRENT ASSETS:	
Capital assets	15,230,822
Less accumulated depreciation	(6,688,635)
Deferred charges, net of amortization	30,634
TOTAL NONCURRENT ASSETS	8,572,821
TOTAL ASSETS	\$ 12,079,364
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 469,261
Accrued interest	47,817
Accrued salaries and related items	681,230
Deferred revenue	53,489
Note payable	1,000,000
Current portion of long-term obligations	297,157
Current portion of compensated absences	53,572
TOTAL CURRENT LIABILITIES	2,602,526
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	5,014,090
Noncurrent compensated absences	589,287
TOTAL NONCURRENT LIABILITIES	5,603,377
TOTAL LIABILITIES	8,205,903
NET ASSETS:	
Invested in capital assets, net of related debt	3,348,541
Restricted for debt service	141,878
Unrestricted	383,042
TOTAL NET ASSETS	3,873,461
TOTAL LIABILITIES AND NET ASSETS	\$ 12,079,364

See notes to financial statements.

**HOMER COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$5,529,774	\$ 16,863	\$ 587,243	\$ (4,925,668)
Support services	2,834,509		85,002	(2,749,507)
Outgoing transfers and other transactions	32,997			(32,997)
Community services	155,341	20,252		(135,089)
Food services	399,711	216,453	180,503	(2,755)
Athletics	222,117	94,255		(127,862)
Interest on long-term debt	206,165		12,477	(193,688)
Unallocated depreciation	354,972			(354,972)
Total governmental activities	<u>\$9,735,586</u>	<u>\$ 347,823</u>	<u>\$ 865,225</u>	<u>(8,522,538)</u>
General revenues:				
Property taxes, levied for general purposes				591,038
Property taxes, levied for debt service				483,174
Investment earnings				114,765
State sources				6,644,378
ISD special education allocation				562,377
Other				17,481
Total general revenues				<u>8,413,213</u>
CHANGE IN NET ASSETS				<u>(109,325)</u>
NET ASSETS , beginning of year				<u>3,982,786</u>
NET ASSETS , end of year				<u>\$ 3,873,461</u>

HOMER COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General fund	2004 Debt service fund	2004 Capital projects fund	Other nonmajor governmental funds	Total governmental funds
ASSETS					
ASSETS:					
Cash	\$ 265,440	\$ 155,263	\$ 39,886	\$ 3,523	\$ 464,112
Investments	881,675		472,701	231,420	1,585,796
Receivables:					
Other governmental units	1,452,157				1,452,157
Due from other funds		21,943		481	22,424
Taxes	1,419				1,419
Inventories				3,059	3,059
TOTAL ASSETS	\$2,600,691	\$ 177,206	\$ 512,587	\$ 238,483	\$ 3,528,967

LIABILITIES AND FUND BALANCES

LIABILITIES:					
Accounts payable	\$ 43,641	\$	\$ 425,620		\$ 469,261
Accrued interest	12,489				12,489
Accrued salaries and related items	681,230				681,230
Deferred revenue	51,495			3,413	54,908
Due to other funds	22,424				22,424
Note payable	1,000,000				1,000,000
TOTAL LIABILITIES	1,811,279		425,620	3,413	2,240,312

	General fund	2004 Debt fund	2004 Capital projects fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:					
Reserved for debt service	\$	\$ 177,206	\$	\$	\$ 177,206
Reserved for inventory				3,059	3,059
Designated for compensated absences	620,998				620,998
Designated for subsequent year's expenditures	168,414		86,967		255,381
Undesignated and unreserved				232,011	232,011
TOTAL FUND BALANCES	789,412	177,206	86,967	235,070	1,288,655
TOTAL LIABILITIES AND FUND BALANCES	\$2,600,691	\$ 177,206	\$ 512,587	\$ 238,483	\$ 3,528,967
TOTAL GOVERNMENTAL FUND BALANCES					\$ 1,288,655

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds					
The cost of the capital assets is				\$ 15,230,822	
Accumulated depreciation is				(6,688,635)	
					8,542,187
The value of amortized bond issuance costs				35,348	
Accumulated amortization				(4,714)	
					30,634
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Bonds payable and unamortized premium					(5,292,939)
Notes payable					(11,661)
Capital lease					(6,647)
Compensated absences					(642,859)
Accrued interest on long-term debt is not included as a liability in government funds, it is recorded when paid					(35,328)
Deferred revenue expected to be collected after September 1, 2006:					
Property taxes at June 30, 2006					1,419
Net assets of governmental activities					\$ 3,873,461

HOMER COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General fund	2004 Debt service fund	2004 Capital projects fund	Other nonmajor governmental funds	Total governmental funds
REVENUES:					
Local sources:					
Property taxes	\$ 591,193	\$ 483,174	\$ 72,367	\$ 4,894	\$ 1,074,367
Investment income	31,202	6,303			114,766
Other	42,634			322,669	365,303
Total local sources	665,029	489,477	72,367	327,563	1,554,436
State sources	6,997,727			51,729	7,049,456
Federal sources	290,985			169,162	460,147
Incoming transfers and other transactions	562,377				562,377
Total revenues	8,516,118	489,477	72,367	548,454	9,626,416
EXPENDITURES:					
Current:					
Instruction:					
Basic programs	4,274,888				4,274,888
Added needs	1,219,748				1,219,748
Adult and community education	9,294				9,294
Total instruction	5,503,930				5,503,930
Support services:					
Pupil	136,695				136,695
Instructional staff	200,958				200,958
General administration	203,018				203,018
School administration	511,591				511,591
Business	339,017				339,017
Operations and maintenance	1,012,864				1,012,864
Transportation	472,450				472,450
Central	34,067				34,067
Total support services	2,910,660				2,910,660
EXPENDITURES (Concluded):					
Current (Concluded):					
Athletics	\$ 155,341	\$ 32,997	\$ 4,063,890	\$ 222,117	\$ 4,573,345
Community services				399,711	155,341
Food service					399,711
Outgoing transfers and other transactions	32,997				32,997
Capital outlay			4,063,890	52,065	4,115,955
Debt service:					
Principal retirement		240,000		27,910	267,910
Interest and fiscal charges		203,213		12,477	215,690
Total expenditures	8,602,928	443,213	4,063,890	714,280	13,824,311
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(86,810)	46,264	(3,991,523)	(165,826)	(4,197,895)
OTHER FINANCING SOURCES (USES):					
Operating transfers in				127,868	127,868
Operating transfers out	(127,868)				(127,868)
Total other financing sources (uses)	(127,868)			127,868	
NET CHANGE IN FUND BALANCES	(214,678)	46,264	(3,991,523)	(37,958)	(4,197,895)
FUND BALANCES:					
Beginning of year	1,004,090	130,942	4,078,490	273,028	5,486,550
End of year	\$ 789,412	\$ 177,206	\$ 86,967	\$ 235,070	\$ 1,288,655

**HOMER COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Net change in fund balances total governmental funds \$ (4,197,895)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(354,972)
Capital outlay	4,142,654

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	44,853
Accrued interest payable, end of the year	(35,328)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, where as these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Amortization expense	(2,357)
Amortized premium	2,538

Proceeds of long-term debt are other financing sources and principal payments are expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities)

Payments on bonded debt	240,000
Payments on Durant - Debt	27,910
Payments on other debt	49,271

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue, beginning of the year	(1,574)
Deferred revenue, end of the year	1,419

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and severance benefits, beginning of the year	617,015
Accrued compensated absences and severance benefits, end of the year	(642,859)

Change in net assets of governmental activities \$ (109,325)

**HOMER COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006**

	Private purpose trust fund	Agency fund
	<hr/>	<hr/>
ASSETS		
Cash	\$ 24,352	\$ 137,404
	<hr/>	<hr/>
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to student groups	\$	\$ 137,404
Net assets:		
Reserved for trust activities	24,352	
	<hr/>	<hr/>
	\$ 24,352	\$ 137,404
	<hr/>	<hr/>

**HOMER COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2006**

	Private purpose trust fund
ADDITIONS:	
Interest earnings	\$ 2,270
Contributions	<u>2,351</u>
Total additions	4,621
DEDUCTIONS:	
Other	<u>3,336</u>
CHANGE IN NET ASSETS	1,285
NET ASSETS:	
Beginning of year	<u>23,067</u>
End of year	<u><u>\$ 24,352</u></u>

HOMER COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Homer Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, except as described in Note 1A. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Homer Community Schools (the "District") is governed by the Homer Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

Component Unit. The Max and Lucille Cortright Homer Education Foundation is a separate tax exempt not for profit corporation under Internal Revenue Code section 501(c)(3). The purpose is to provide additional funding for the education of the children of Homer. This entity has been excluded from these financial statements and separate audited financial statements have not been prepared.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Continued)

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *2004 debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *2004 capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2004 capital projects fund. The project for which the 2004 capital project bonds were issued was considered complete on December 31, 2005.

The following is a summary of the revenue and expenditures for the 2004 capital projects bond activity since inception:

	<u>2004 Bond</u>
Revenue and other financing sources	<u>\$ 5,806,705</u>
Expenditures	<u>\$ 5,719,738</u>

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *capital projects fund* accounts for the receipt of debt proceeds, transfers from the general fund, other revenue and the acquisition of fixed assets or construction of major capital projects.

The *debt service fund* - Durant accounts for the resources accumulated and payments made for principal and interest on long-term limited obligation debt as a result of the Durant settlement.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust* fund is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where interest payments may be spent for student scholarships. These funds are not included in the District's government-wide financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No.40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	17.5374
Debt service fund - Homestead and non-homestead	4.6500

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. The Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The District does not consider these amendments to be significant.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF External Investment pool - MICMS	\$ 30,794	0.0027	AAAm	2.2%
MILAF External Investment pool -MIMAX	10,642	0.0027	AAAm	0.1%
U.S. Agency Discount Notes	472,700	0.1370	A-1+	33.9%
Guaranteed Investment Contract (GIC)	881,677	0.0493	A1+	63.8%
Total fair value	<u>\$ 1,395,813</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0780</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2006, the fair value of the District’s investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$1,170,895 of the District's bank balance of \$1,370,895 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

The District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the note payable disclosed in Note 5.

The Investment Agreement was dated as of August 19, 2005, by and among J.P.Morgan Trust Company, National Association, as the Depository on behalf of both the participating Michigan School Districts and the Michigan Municipal Bond Authority, and Citigroup Global Markets, Inc., as Provider.

The net proceeds from the sale of the Series B-1 Notes were loaned by the Authority to Michigan School Districts. Such loans were repaid with monthly set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) equaling at least 102% of the deposited amount and such Permitted Investments are held by the Depository in a fiduciary capacity.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 4.09% (simple interest actual days elapsed over a 365-day year).

The Guarantor is Citigroup, Inc., as guarantor of the Provider's obligations under this Investment Agreement.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$161,756	\$ 815,851
Investments	<u>1,395,813</u>
	<u><u>\$ 2,211,664</u></u>

The above amounts are reported in the financial statements as follows:

Cash Private Purpose Trust Fund	\$ 24,352
Cash Agency Fund	137,404
Cash - District wide	464,112
Investments - District wide	<u>1,585,796</u>
	<u><u>\$ 2,211,664</u></u>

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2005	Additions	Reclassifications/ deletions	Balance June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 15,000	\$	\$	\$ 15,000
Construction in progress	1,620,501		(1,620,501)	
Total capital assets not being depreciated	1,635,501		(1,620,501)	15,000
Capital assets, being depreciated:				
Buildings and improvements	5,242,300	5,588,621		10,830,921
Technology	552,737	87,501		640,238
Furniture and fixtures	1,777,441	30,714		1,808,155
Machinery and equipment	940,388	56,319		996,707
Transportation and equipment	939,801			939,801
Total capital assets being depreciated	9,452,667	5,763,155		15,215,822
Accumulated depreciation:				
Buildings and improvements	2,861,878	148,064		3,009,942
Technology	486,739	38,061		524,800
Furniture and fixtures	1,403,647	95,908		1,499,555
Machinery and equipment	852,480	28,450		880,930
Transportation and equipment	728,919	44,489		773,408
Total accumulated depreciation	6,333,663	354,972		6,688,635
Net capital assets being depreciated	3,119,004	5,408,183		8,527,187
Net governmental capital assets	\$ 4,754,505	\$ 5,408,183	\$ (1,620,501)	\$ 8,542,187

Depreciation for the fiscal year ended June 30, 2006 amounted to \$354,972. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Amounts reclassified from construction in progress are for assets placed in service and are included in current year additions.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTE PAYABLE

At June 30, 2006, the District has a note payable outstanding of \$1,000,000. The note has an interest rate of 2.87% and matures August 18, 2006. The District has \$881,675 of funds on deposit with a financial institution, which are included in investments on the general fund balance sheet, to be applied against the \$1,000,000 note. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2005	Additions	Payments	Balance June 30, 2006
<u>\$ 900,000</u>	<u>\$ 1,000,000</u>	<u>\$ 900,000</u>	<u>\$ 1,000,000</u>

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. At June 30, 2006 the District has no general obligation bonds outstanding. Long-term obligations currently outstanding are as follows:

	Capital lease obligations and notes	General obligation bonds and premium	Termination benefits and compensated absences	Limited obligation Durant bonds	Total
Balance, July 1, 2005	\$ 67,579	\$ 5,485,525	\$ 617,015	\$ 77,862	\$ 6,247,981
Additions			25,844		25,844
Deletions	(49,271)	(242,538)		(27,910)	(319,719)
Balance, June 30, 2006	18,308	5,242,987	642,859	49,952	5,954,106
Less current portion	(15,978)	(275,000)	(53,572)	(6,179)	(350,729)
Total due after one year	<u>\$ 2,330</u>	<u>\$ 4,967,987</u>	<u>\$ 589,287</u>	<u>\$ 43,773</u>	<u>\$ 5,603,377</u>

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

Long-term obligation debt at June 30, 2006 is comprised of the following:

2004 serial bonds due in annual installments of \$275,000 to \$515,000 through May 2019 with interest from 2.5% to 4.3%.	\$ 5,210,000
Limited obligation (Durant) bond, due in installments of \$6,179 to \$8,169 through May 15, 2013, with interest of 4.76%. Certain future state aid payments have been pledged as security.	49,952
Obligation under contract for compensated absences.	642,859
Obligations under capital lease.	6,647
Bus notes payable, due in monthly semi-annual installments of \$11,661 through August 9, 2006, with interest from 4.25% to 5.85%.	11,661
Plus: premium on 2003 bond issuance	<u>32,987</u>
Total general long-term debt	<u><u>\$ 5,954,106</u></u>

Interest expense (all funds) for the year ended June 30, 2006 was \$245,050. General fund interest expense is included in support services.

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debt outstanding as of June 30, 2006, including interest of \$1,603,770 are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 297,157	\$ 200,097	\$ 497,254
2008	313,804	191,580	505,384
2009	336,783	182,052	518,835
2010	352,105	171,003	523,108
2011	367,444	158,591	526,035
2012 - 2016	2,115,967	572,329	2,688,296
2017 - 2019	1,495,000	128,118	1,623,118
Total	5,278,260	1,603,770	6,882,030
Premium on bond issuance	32,987		32,987
Accumulated compensated absences	642,859		642,859
	<u>\$ 5,954,106</u>	<u>\$ 1,603,770</u>	<u>\$ 7,557,876</u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2006 are as follows:

Receivable fund		Payable fund	
Special revenue	\$ 481	General	\$ 22,424
Debt service	<u>21,943</u>		
	<u>\$ 22,424</u>		<u>\$ 22,424</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

HOMER COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005 was 14.87% through September 2005 and 16.34% for October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2006, 2005 and 2004 were approximately \$882,000, \$754,000 and \$688,000, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Also within the MPERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPERS with the balance deducted from the monthly pension.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 10 - TRANSFERS

The general fund transferred \$127,868 to the athletic fund during the current fiscal year. The transfer to the athletic fund was to subsidize operations.

NOTE 11 - SUBSEQUENT EVENTS

The District has approved borrowing \$1,200,000 for fiscal year 2007 to replace the note payable as described in Note 5.

NOTE 12 - COMMITMENTS

The District has committed substantially all of the funds to complete its \$5,600,000 bond proposal construction program.

REQUIRED SUPPLEMENTARY INFORMATION

**HOMER COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	\$ 599,020	\$ 671,663	\$ 665,029	\$ (6,634)
State sources	6,966,015	7,014,967	6,997,727	(17,240)
Federal sources	254,107	290,985	290,985	
Incoming transfers and other transactions	491,008	554,834	562,377	7,543
Total revenues	8,310,150	8,532,449	8,516,118	(16,331)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	4,302,322	4,282,666	4,274,888	7,778
Added needs	1,038,301	1,220,507	1,219,748	759
Adult and continuing education	12,100	9,515	9,294	221
Total instruction	5,352,723	5,512,688	5,503,930	8,758
Support services:				
Pupil	148,758	142,655	136,695	5,960
Instructional staff	198,650	201,465	200,958	507
General administration	221,355	203,925	203,018	907
School administration	476,635	513,190	511,591	1,599
Business	343,795	329,169	339,017	(9,848)
Operations and maintenance	905,874	1,010,680	1,012,864	(2,184)
Transportation	483,620	472,519	472,450	69
Central	37,270	34,585	34,067	518
Total support services	2,815,957	2,908,188	2,910,660	(2,472)
Community services	145,170	165,195	155,341	9,854
Outgoing transfers and other transactions	32,300	33,030	32,997	33
Total expenditures	8,346,150	8,619,101	8,602,928	16,173
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(36,000)</u>	<u>(86,652)</u>	<u>(86,810)</u>	<u>(158)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers out	<u>(130,000)</u>	<u>(127,868)</u>	<u>(127,868)</u>	
Total other financing sources (uses)	<u>(130,000)</u>	<u>(127,868)</u>	<u>(127,868)</u>	
NET CHANGE IN FUND BALANCE	<u>\$ (166,000)</u>	<u>\$ (214,520)</u>	<u>(214,678)</u>	<u>\$ (158)</u>
FUND BALANCE:				
Beginning of year			<u>1,004,090</u>	
End of year			<u>\$ 789,412</u>	

ADDITIONAL INFORMATION

**HOMER COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2006**

	<u>Special revenue</u>	<u>Capital projects</u>	<u>Total nonmajor governmental funds</u>
ASSETS			
ASSETS:			
Cash	\$ 273	\$ 3,250	\$ 3,523
Investments	106,964	124,456	231,420
Due from other funds	481		481
Inventories	3,059		3,059
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 110,777</u></u>	<u><u>\$ 127,706</u></u>	<u><u>\$ 238,483</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Deferred revenue	\$ 3,413	\$	\$ 3,413
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>3,413</u>	<u> </u>	<u>3,413</u>
FUND BALANCES:			
Reserved for inventory	3,059		3,059
Undesignated	104,305	127,706	232,011
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>107,364</u>	<u>127,706</u>	<u>235,070</u>
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 110,777</u></u>	<u><u>\$ 127,706</u></u>	<u><u>\$ 238,483</u></u>

HOMER COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2006

	Special revenue	Debt service - Durant	Capital projects	Total nonmajor governmental funds
REVENUES:				
Local sources:				
Investment income	\$	\$	\$ 4,894	\$ 4,894
Other	315,256		7,413	322,669
Total local sources	315,256		12,307	327,563
State sources	11,342	40,387		51,729
Federal sources	169,162			169,162
Total revenues	495,760	40,387	12,307	548,454
EXPENDITURES:				
Current :				
Athletics	222,117			222,117
Food service	399,711			399,711
Debt service:				
Principal retirement		27,910		27,910
Interest		12,477		12,477
Capital outlay	11,622		40,443	52,065
Total expenditures	633,450	40,387	40,443	714,280
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(137,690)		(28,136)	(165,826)
OTHER FINANCING SOURCES:				
Operating transfers in	127,868			127,868
Total other financing sources	127,868			127,868
NET CHANGE IN FUND BALANCES	(9,822)		(28,136)	(37,958)
FUND BALANCES:				
Beginning of year	117,186		155,842	273,028
End of year	\$ 107,364	\$	\$ 127,706	\$ 235,070

**HOMER COMMUNITY SCHOOL DISTRICT
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006
(with comparative totals for June 30, 2005)**

	Food services fund	Athletics fund	Totals	
			2006	2005
ASSETS				
Cash	\$ 273	\$	\$ 273	\$ 490
Investments	106,964		106,964	115,542
Inventory - food service	3,059		3,059	4,100
Due from general fund		481	481	476
Total assets	<u>\$ 110,296</u>	<u>\$ 481</u>	<u>\$ 110,777</u>	<u>\$ 120,608</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Deferred revenue	<u>\$ 3,413</u>	<u>\$</u>	<u>\$ 3,413</u>	<u>\$ 3,422</u>
Fund balances:				
Reserved for inventory	3,059		3,059	4,100
Undesignated	<u>103,824</u>	<u>481</u>	<u>104,305</u>	<u>113,086</u>
Total fund balances	<u>106,883</u>	<u>481</u>	<u>107,364</u>	<u>117,186</u>
Total liabilities and fund balances	<u>\$ 110,296</u>	<u>\$ 481</u>	<u>\$ 110,777</u>	<u>\$ 120,608</u>

**HOMER COMMUNITY SCHOOL DISTRICT
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006
(with comparative totals for the year ended June 30, 2005)**

	Food services fund	Athletics fund	Totals	
			2006	2005
REVENUES:				
Food sales	\$ 216,453	\$	\$ 216,453	\$ 223,353
Federal aid	169,162		169,162	154,327
State aid	11,342		11,342	13,355
Interest and miscellaneous	4,549		4,549	1,431
Athletic events		94,254	94,254	54,471
Total revenues	401,506	94,254	495,760	446,937
EXPENDITURES:				
Salaries and wages	156,110		156,110	140,559
Employee benefits	38,020		38,020	32,683
Supplies and other expenses	51,435		51,435	26,679
Food costs	154,146		154,146	158,412
Capital outlay	11,622		11,622	820
Athletic expenses		222,117	222,117	182,519
Total expenditures	411,333	222,117	633,450	541,672
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,827)	(127,863)	(137,690)	(94,735)
OTHER FINANCING SOURCES:				
Operating transfer in from general fund		127,868	127,868	128,054
NET CHANGE IN FUND BALANCES	(9,827)	5	(9,822)	33,319
FUND BALANCES, beginning of year	116,710	476	117,186	83,867
FUND BALANCES, end of year	\$ 106,883	\$ 481	\$ 107,364	\$ 117,186

**HOMER COMMUNITY SCHOOL DISTRICT
NONMAJOR CAPITAL PROJECTS FUND
BALANCE SHEET
JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 3,250	\$ 250
Investments	124,456	152,592
Accounts receivable		<u>3,000</u>
Total assets	<u>\$ 127,706</u>	<u>\$ 155,842</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$	\$
Fund balance:		
Unreserved	<u>127,706</u>	<u>155,842</u>
Total liabilities and fund balance	<u>\$ 127,706</u>	<u>\$ 155,842</u>

**HOMER COMMUNITY SCHOOL DISTRICT
NONMAJOR CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
REVENUES:		
Investment income	\$ 4,894	\$ 2,078
Other income	<u>7,413</u>	
Total revenues	12,307	2,078
EXPENDITURES:		
Capital outlay	<u>40,443</u>	<u>12,715</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(28,136)</u>	<u>(10,637)</u>
OTHER FINANCING SOURCES:		
Sale of school property		6,493
Operating transfer in		<u>25,000</u>
Total other financing sources		<u>31,493</u>
NET CHANGE IN FUND BALANCE	(28,136)	20,856
FUND BALANCES:		
Beginning of year	<u>155,842</u>	<u>134,986</u>
End of year	<u><u>\$ 127,706</u></u>	<u><u>\$ 155,842</u></u>

**HOMER COMMUNITY SCHOOL DISTRICT
FIDUCIARY FUNDS
(INTERNAL FUNDS)
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES
BY ACTIVITY - AGENCY FUND
YEAR ENDED JUNE 30, 2006**

	Balance 6/30/2005	Receipts	Disbursements	Balance 6/30/2006
Academic Boosters Club	\$ 2,491	\$ 12,287	\$ (12,140)	\$ 2,638
Academic Service Learning		481	(481)	
Alternative Ed Office account		30	(29)	1
Band Bach Club	490	4,340	(4,152)	678
Band store supplies	171	261	(156)	276
 Band Boosters - Parents Group	 9,976	 39,993	 (40,011)	 9,958
CHAMPS	520	3,501	(3,159)	862
Chicago Trip - 7th Grade	975	8,874	(8,094)	1,755
Class of 2005	873		(873)	
Class of 2006	2,542	902	(3,232)	212
 Class of 2007	 1,656	 3,746	 (3,773)	 1,629
Class of 2008	782	1,552	(535)	1,799
Class of 2009	329	5,541	(3,479)	2,391
Class of 2010	368	231	(72)	527
Class of 2011	109	93	(11)	191
 Class of 2012	 60	 117	 (15)	 162
Class of 2013		58	(19)	39
Class of 2014	5,070		(5,070)	
Class of 2015	2,773			2,773
Class of 2016	1,177			1,177
 Class of 2017	 922			 922
Class of 2018	186			186
Concessions - pop fund	4,493	56,161	(58,064)	2,590
Cortright Grant		16,772	(16,772)	
Draime Golf Tournament	5,957	21,812	(23,954)	3,815
 Warren Dexter Fund		 300	 (100)	 200
Elementary Clothing	556	48	(344)	260
Elementary Field Trip Fund		933	(863)	70
Elementary Media Activities	2,333	6,396	(6,699)	2,030
Elementary Office Account	540	530	(609)	461

**HOMER COMMUNITY SCHOOL DISTRICT
FIDUCIARY FUNDS
(INTERNAL FUNDS)
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES
BY ACTIVITY - AGENCY FUND
YEAR ENDED JUNE 30, 2006**

	Balance 6/30/2005	Receipts	Disbursements	Balance 6/30/2006
Elementary Pop Fund	\$ 17	\$ 742	\$ (650)	\$ 109
Fine Arts Parents Fund	262			262
Flag Corp	476	313	(417)	372
Fourth Grade Trip Fund	11,236	28,790	(28,628)	11,398
Future Farmers of America	(321)	32,027	(23,562)	8,144
Future Farmers of America Allumni	5,219	418	(500)	5,137
Homer Soccer Program	886	2,875	(3,361)	400
Homer Student Loan		1,550	(1,550)	
H.S. Art		50		50
H.S. Choir	85	1,295	(659)	721
H.S. Completion Program		3,550	(3,550)	
H.S. Drama Club	2,145	5,824	(6,269)	1,700
H.S. Guidance	713	402	(439)	676
H.S. Media Center	1,420	2,582	(3,611)	391
Home Ec		681	(533)	148
I Can Read to You	683			683
In Service	2,706	630	(192)	3,144
Interest Account	2,911	9,750	(10,373)	2,288
M. S. Student Activity	7,532	20,309	(21,028)	6,813
Mystery Trip (Prom Night)	908	3,933	(4,799)	42
National Honor Society	579		(66)	513
P.T.O.	13,008	31,804	(34,543)	10,269
Peacock State Farm Grant		12,200	(6,971)	5,229
S.A.D.D.		372		372
Sharps Class	94			94
Spanish Club	777	926	(643)	1,060
Student Council	1,123	1,531	(1,677)	977
Summer Recreation	1,872	26,467	(26,269)	2,070
Tech Kids	57			57
Trojan Yearbook	12,374	8,847	(12,628)	8,593

**HOMER COMMUNITY SCHOOL DISTRICT
FIDUCIARY FUNDS
(INTERNAL FUNDS)
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES
BY ACTIVITY - AGENCY FUND
YEAR ENDED JUNE 30, 2006**

	Balance 6/30/2005	Receipts	Disbursements	Balance 6/30/2006
Varsity Club	\$ 12,154	\$ 59,781	\$ (62,174)	\$ 9,761
Weight Room		321	(287)	34
Youth Basketball	28	3,891	(2,153)	1,766
Youth Grant	254	4,500	(4,767)	(13)
Youth in Government	3			3
Other:				
Board operating	5,241	5,369	(1,473)	9,137
B. Edwards Emergency Fund	360			360
H-Club (Trojan Wear Sold)	658	5,027	(3,675)	2,010
High School Office Account	427	412	(259)	580
Homer alumni - Ballentine	3,376	1,089	(1,100)	3,365
Homer alumni - general account	1,577	1,714	(1,810)	1,481
Homer Area Community Foundation		3,082	(3,082)	
Preschool Program - Parent Paid	950	15,064	(17,198)	(1,184)
Revolving		64,000	(63,210)	790
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL	<u>\$ 137,139</u>	<u>\$ 547,077</u>	<u>\$ (546,812)</u>	<u>\$ 137,404</u>

**HOMER COMMUNITY SCHOOL DISTRICT
BONDED DEBT
JUNE 30, 2006**

\$121,874 Durant Bond issued November 24, 1998:

Principal due May 1	Interest due May 15	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 6,179	\$ 2,378	2007	\$ 8,557
6,474	2,084	2008	8,558
6,783	1,776	2009	8,559
7,105	1,453	2010	8,558
7,444	1,115	2011	8,559
7,798	760	2012	8,558
8,169	389	2013	8,558
<u>\$ 49,952</u>	<u>\$ 9,955</u>		<u>\$ 59,907</u>

The above bond issue bears interest at 4.76%. The bond proceeds were used for erecting, furnishing and equipping additions to the existing high school building and developing and improving the site.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

**HOMER COMMUNITY SCHOOL DISTRICT
BONDED DEBT
JUNE 30, 2006**

\$5,600,000 Bonds issued August 1, 2004:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 275,000	\$ 98,494	\$ 98,494	2007	\$ 471,988
305,000	94,713	94,713	2008	494,426
330,000	90,138	90,138	2009	510,276
345,000	84,775	84,775	2010	514,550
360,000	78,737	78,737	2011	517,474
380,000	72,437	72,437	2012	524,874
400,000	65,312	65,312	2013	530,624
420,000	57,812	57,812	2014	535,624
440,000	49,412	49,412	2015	538,824
460,000	40,613	40,613	2016	541,226
480,000	31,412	31,412	2017	542,824
500,000	21,573	21,573	2018	543,146
515,000	11,073	11,073	2019	537,146
<u>\$ 5,210,000</u>	<u>\$ 796,501</u>	<u>\$ 796,501</u>		<u>\$ 6,803,002</u>

The above bonds were authorized at an election June 14, 2004 and have interest rates from 1.45% to 4.3%. The bonds were issued for the purpose of erecting, furnishing and equipping an addition connecting the middle/high school and elementary school; refurnishing and re-equipping school buildings; acquiring and installing educational technology improvements; and developing and improving the site.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raack
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Homer Community Schools
Homer, Michigan

July 21, 2006

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Community Schools as of and for the year ended June 30, 2006, which collectively comprise Homer Community Schools basic financial statements of the District's primary government and have issued our report thereon dated July 21, 2006. Our opinion is for the primary government only and not for the primary reporting entity. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Homer Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Education
Homer Community Schools
Homer, Michigan

July 21, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Homer Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Homer Community Schools in a separate letter dated July 21, 2006.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mamer, Costeusan & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants



Iamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

July 21, 2006

To the Board of Education
Homer Community Schools
Homer, Michigan

In planning and performing our audit of the financial statements of Homer Community Schools for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated June 21, 2006, on the financial statements of Homer Community Schools.

Prior Year Comment - Resolved

Athletic Ticket Sales

In the prior year, we recommended the athletic department implement a ticket system for the sale of athletic event attendance. We are pleased to announce the athletic department implemented such a system.

New Rules For §403(B) Plans

Final regulations have still not been finalized.

Bonds

For all bonds issued after May 1, 1994, a separate interim audit must be completed for each individual series of a bond authorization prior to the issuance of the next series. This interim audit must be completed within 120 days after completion of all projects and filed immediately with the Department of Treasury. This requirement is pursuant to Section 1351a(2) of Act 451 of the Public Acts of 1976. The management of the District should contact us with information as to the completion of all capital projects meeting this requirement so we can perform our audit procedures in a timely manner.

Filings will be made with the Michigan Department of Treasury.

Current Year Comments

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the district fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act we believe the district's current budget procedures are adequate.

Cash Management - Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the District request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the District could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the District. We will have to evaluate the District's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Education
Homer Community Schools
Homer, Michigan

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July 21, 2006

This report is intended solely for the information and use of Homer Community Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Momer, Costeniser & Ellis, P.C.



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July 21, 2006

To the Finance Committee
Homer Community Schools
Homer, Michigan

We have audited the financial statements of Homer Community Schools for the year ended June 30, 2006, and have issued our report thereon dated July 21, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors may exist and not be detected by us.

As part of our audit, we considered the internal control of Homer Community Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Homer Community School's compliance with certain provisions of law, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Homer Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Homer Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements was:

Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$640,000. In addition, certain amounts included in capital assets have been based on an outside appraisal company.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Homer Community School's financial reporting process (that is, cause future financial statements to be materially misstated). During the audit, adjustments were made to record transactions in the debt service and capital projects funds to record current year activity. In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Homer Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Homer Community School's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Finance Committee
Homer Community Schools
Homer, Michigan

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July 21, 2006

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Homer Community School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Finance Committee, Board of Directors and management of Homer Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Manner, Costeniser & Ellis, P.C.